

10 August 2012

The Chairman and the Members of the CDM Executive Board
c/o UNFCCC Secretariat
P. O. Box 260124
D-53153 Bonn
Germany

Dear Madam or Sir,

RE: Comments on draft Guidelines on the application of materiality in verifications

We welcome efforts made by the Executive Board to develop guidelines on the application of materiality by designated operational entities (DOEs) in verifications. We would like to make comments on the draft Guidelines on the application of materiality in verifications.

Our comments focus on how the concept, definition, and benefits of materiality shall be applied appropriately to practical verification activities.

Our comments are as follows:

1. Para 16(b) says “the sources of project emissions and leakage within the project boundary”, however “leakage” is defined as “the net change of anthropogenic emissions by sources of GHG which occurs outside the project boundary”.
2. Para 29(b) says “the third source reportedly accounts for 1.8 per cent of the total emissions (i.e. less than the materiality level of 2 per cent)”, however the materiality standard discusses the emission reductions instead of emissions as defined in the sentence, “X per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than YY tonnes of carbon dioxide equivalent per year”. Denominator to calculate the materiality threshold level is “the total emission reductions or removals”, instead of “the total emissions”.
3. Para 30 explains the following situation.
 - The number of all data reported is 1,000
 - Among 1,000 data, a DOE checked 200 samples.
 - Among 200 data, two data are found to be erroneous.Para 30(d) says “to review the whole data set to check whether similar errors also occurred in the remaining data set not checked by the DOE”, and it gives the impression that a DOE must check the remaining 800 reported data in order to reach a reasonable level of assurance. The concept of materiality should be introduced to avoid such a complete enumeration in the first place, and allow the DOE to determine that the claimed emission reductions or removals are free from material error, omission or misstatement.
4. Para 31(c) says “are identified to represent an error of 0.5 per cent of the total emissions (i.e.

less than the materiality level of 1 per cent)", but the materiality standard are defined "X per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than YY tonnes of carbon dioxide equivalent per year". Denominator to calculate materiality threshold level is "the total emission reductions or removals", instead of "the total emissions".

In addition, as stated in Para 19 of the guidelines, as long as the claimed emission reductions stay within the allowable range of errors, the DOE shall be allowed to give a reasonable assurance to the claimed emission reductions or removals. The example in Para 31 contradicts the concept of materiality.

5. Para 31(d) says "the DOE confirms the corrections but also decides to test another sample of data in order to reach a reasonable level of assurance that no additional errors are present in the data set". This implies that as long as a DOE detects errors within the sample data even if those detected errors may not be material, the DOE is required to check other data sets.

This contradicts the concept of materiality. As long as the result of the sampling satisfies the materiality threshold, the DOE shall not be required to conduct further sampling as the claimed emission reductions or removals have already reached a reasonable level of assurance.

6. Para 32(b) says "These errors are quantified to represent an error of 1 per cent of the total emissions (i.e. more than the materiality level of 0.5 per cent)", but the materiality standard are defined "X per cent of the emission reductions or removals for project activities achieving a total emission reduction or removal of equal to or more than YY tonnes of carbon dioxide equivalent per year". Denominator to calculate materiality threshold level is "the total emission reductions or removals", instead of "the total emissions".

7. Para 30(d) says "After having confirmed that the project participants have corrected the identified errors", and para 31(d) says "These errors are corrected by the project participants and the DOE confirms the corrections". We have concerns that the project participants may encounter situations where they may not be able to correct all the errors (especially non material errors). In these examples of the said paragraph, even when the sampling result shows that the identified errors would not affect materiality, the project participant and the DOE are requested to correct and review the remaining data. As long as the claimed emission reductions stay within the allowable range of errors, the DOE shall be allowed to give a reasonable assurance to the claimed emission reductions or removals.

8. The guidelines on application of materiality in verifications must clearly explain how to compute a denominator and a numerator in calculating materiality level in order to compare it against the materiality threshold level.

For example, if total emission reductions or removals is reported as 100, and a DOE finds that 10 are possibly overestimated figure among 100 due to omissions and the true value is reasonably assumed somewhere between 8 and 10.

In this case, is the materiality level calculated as $(2/100)$ or $(2/98)$?

9. The formula to calculate the materiality level is as follows:

$(\text{The overestimated emission reductions or removals}) / (\text{The total emission reductions or removals})$

removals)

= (The overestimated (baseline emissions - project emissions - leakage emissions)) / (The total (baseline emissions - project emissions - leakage emissions))

Errors or omissions may occur not only in calculating the project emissions but also other parameters such as the baseline emissions and/or leakage emissions. Furthermore, errors or omissions may affect emission reductions differently (toward underestimation of emission reductions in calculating baseline emissions whereas toward overestimation of emission reductions in calculating project emissions).

The guidelines on application of materiality in verifications must clearly explain how to compute a denominator and a numerator in calculating materiality level by showing specific numerical examples of all parameters needed for computing.

We would greatly appreciate if the CDM Executive Board could consider abovementioned comments at the next meeting.

Sincerely yours,

Tatsushi HEMMI (Mr.)
Environment and Energy Department
Mitsubishi UFJ Research and Consulting Co., Ltd.
Address: 5-11-2, Toranomon, Minato-ku, Tokyo, Japan
Email: tatsushi.hemmi@murc.jp
Phone: +81-(0)3-6733-3472